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SUBJECT: TAJIKISTAN'S TOP EXPORT, COTTON, CONTINUES TO DECLINE

REF: DUSHANBE 209

[11.](#) SUMMARY: Tajikistan's cotton harvest continues to decline since the fall of the Soviet Union due to lack of farm capital, poor land management, and detrimental financing options. The government acknowledges a need to change policies to resuscitate the cotton industry, but real reform has been slow. END SUMMARY.

[12.](#) Tajikistan only harvested 73.3% of its 610,000 tons cotton quota this year, down 109,354 tons from last year. The loss of over one-quarter of expected cotton revenue, coupled with decreasing world cotton prices, hurts Tajikistan's economy and its impoverished farmers, three-fourths of whom grow cotton. Based on this year's results, Tajik authorities plan to revise the cotton quota for 2006 down to 550,000 tons from the slated 610,000 tons. The government had forecasted cotton harvest yields through 2010 and hoped to harvest 750,000 tons in 2010, but will most likely have to downgrade upcoming projections. Tajik cotton production has been in decline since the collapse of the Soviet Union when the country averaged one million tons of cotton per year. In addition to reducing expectations for the cotton harvest, authorities have allocated less land towards cotton for 2006, only 250,000 hectares compared to 2005's 288,000 hectares.

[13.](#) In a newspaper article December 26, Prime Minister Akilov blamed the poor harvest on a shortage of technical equipment and futures companies' failure to provide pesticides and fertilizer in a timely manner. Futures companies are the interlocutors between international investors and farmers. They provide loans and farm supplies to farmers and collect the cotton to sell on the international market. Akilov held a meeting on December 24 with relevant ministries, such as the Ministry of Agriculture, the Tajik Central Bank and futures companies to strategize an efficient 2006 harvest. Regional authorities were tasked with preparing for cotton sowing by mid-January. He also stated that farms should clear off their water and electricity debt. According to Saidmurod Bahriddinov, Chief of the Department of Technical Crops, the government decreased the 2006's cotton target to increase grain, potato and vegetable production in an effort to balance food security, a growing concern for Tajikistan.

POOR LAND MANAGEMENT LEADS TO LOW COTTON YIELD

[14.](#) Tajikistan's poor cotton harvest stems from a combination of many factors (REFTEL). Tajikistan's concentrated efforts on growing cotton has taken its toll on the land and led to a decrease in cotton yield. An old and inefficient irrigation system exacerbated by Tajikistan's high elevation has worsened land salinization and rendered the land infertile to crops. Although all farms have been privatized, farmers have no say over what they can use the land for and are instructed by the government to grow cotton year after year just so the country can meet its cotton quota. There is no system of crop rotation and continuous cotton growth wears out the land.

[15.](#) Access to water affects the entire country and lack of water contributes to a low cotton harvest. Agriculture uses 84% of Tajikistan's water supply, however due to an inefficient and old leaky irrigation system, only half of the water actually reaches farms. Prime Minister Akilov called on farmers to cut their electricity and water debt. However, the cost of pumping water up to high elevations is expensive and many impoverished farmers cannot pay their electric or water bills.

[16.](#) Akilov's complaints about the lack of machinery and futures companies are valid. Cotton is still handpicked in Tajikistan by peasants and forced student laborers. Farmers complain that existing gins are inefficient and the majority cannot afford capital machinery for their farms. Futures companies hold a monopoly over farm supplies and force farmers to buy products at their designated prices. The futures companies' delay in supplying pesticide this year was detrimental to Tajik crops,

which are constantly plagued by pests. Tajikistan is also disadvantaged by not having a cotton grading facility. Although the cotton may be high quality, it is bought by international buyers at a discount since the quality of the cotton must be established offshore.

THE GOVERNMENT PLANS TO REFORM

17. The Minister of Agriculture sent a letter in November to President Rahmonov outlining several recommended agriculture reforms, including: introducing better cotton seeds, increasing crop rotation, and increasing the number of domestic cotton gins. The Ministry of Agriculture hopes to see a textiles industry grow in Tajikistan.

18. Reforming the banking and finance sector would help small and medium-sized enterprises as well as the country's farmers. Tajik farmers owe an estimated 230 million dollars to banks and investors. Bahrriddinov told PolOff that President Rahmonov gave a verbal order to the National Bank to lend directly to farmers and not go through futures companies. The government set up an independent commission to investigate reforming the futures companies.

19. Bahrriddinov said President Rahmonov is looking at ways to offer credit at a lower rate and provide farmers with the loans they need. Bank loan interest rates are exorbitantly high at up to 36% and prevent farmers as well as other entrepreneurs from borrowing money. However, the futures companies set interest rates on farm loans even higher at nearly 60%. Banks will not lend to farmers because the farmers come with old land debt. In addition, the banks require collateral on the loans, which farmers cannot provide, thereby prohibiting them from receiving bank credit.

110. Even the government has acknowledged futures companies do not meet expectations as investment mediators and contribute to farmers' debt. Political interests have prevented reform of the banking sector and the role of futures companies. The Chairman of the National Bank, Murodali Alimardonov, is also a partner of HIMA, one of the largest Tajik futures companies. His investment in the cotton industry is a conflict of interest in reforming the sector.

111. Although the government, NGOs and farmers complain about futures companies' gouging activities, the Asian Development Bank (ADB) has argued middlemen are needed because international investors hesitate to deal with farmers directly. ADB instead advises that the government audit futures companies, weed out exploitative middlemen and establish good investment practices.

112. Tajikistan's government insists on promoting cotton because it is a strategic cash crop for the country. Bahrriddinov argues this is because the state earns ten percent on all cotton revenues, with cotton accounting for 40% of exports and providing badly needed jobs.

113. COMMENT: The government may blame and rationalize a poor cotton harvest on a variety of peripheral factors, but a consistently declining cotton yield is the result of bad government policy, poor land management and a system that squeezes farmers out of the business. Unless Tajikistan can reform the cotton industry and improve farming and land conditions, the country will no longer be able to rely on cotton to sustain its economy. Banking and financial reforms are needed, but are hindered by entrenched financial interests of powerful politicians. The government is only beginning to realize the need to reform. A working group of NGOs, IFIs and government officials continues to discuss ways to move the issue forward in a way that addresses Tajikistan's national interests and not special interests. END COMMENT.
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